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# **Henry George and the New Social Contract**

David Hapgood © 1994

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by

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## Founder's Day at the Lincoln Institute of Land Policy

Each year, the Lincoln Institute convenes its staff and invited guests on the lawn of Lincoln House for a special program in the Lincoln Lecture Series that commemorates the birth of John Cromwell Lincoln on July 17, 1866. A Cleveland industrialist who founded the Lincoln Foundation in 1947, Mr. Lincoln drew inspiration from the ideas of Henry George, the nineteenth-century American political economist and social philosopher.

In his 1994 Founder's Day address, David Hapgood suggests that because of the events of the last decade—a political vacuum created by the fall of communism and the failures of Third World statist rule—and because of the environmental crisis that is forcing us to re-think our allocation of natural resources, the political environment today offers a uniquely favorable opportunity to put into practice the new social contract preached by Henry George. In order to make this address widely available, the Institute is pleased to distribute it through its working paper series.

## About the Speaker

David Hapgood is a journalist by profession. He was an editor and writer at *The New York Times* and was a Fellow of the Institute of Current World Affairs in West Africa. He is the author or co-author of a dozen books, most recently *Year of the Pearl* (Knopf, 1993). He is a graduate of Swarthmore College and lives in New York City with his wife, Janice.

## About the Lincoln Institute of Land Policy

The Lincoln Institute of Land Policy is a nonprofit and tax-exempt educational institution established in 1974. Its mission as a school is to study and teach land policy, including land economics and land taxation. The Institute is supported by the Lincoln Foundation.

Integrating the theory and practice of land policy—and understanding forces that influence it—are the major goals of the Lincoln Institute. The Institute seeks to understand choices for land use and development, related regulatory and tax policies, their effects on the environment and natural resources, and systems of governance by which land and tax policies are implemented.

Through its research, courses and conferences, and publications, the Institute seeks to advance and disseminate knowledge of critical land policy issues. The Institute's objective is to have an impact on land policy—to make a difference today and to help policymakers plan for tomorrow.

For copies of the Lincoln Institute's current research agenda, or of its course or publications catalogs, please contact the staff directly at:

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## Abstract

Our times offer a great opportunity for the ideas put forward more than a century ago by Henry George. First, because events of the last decade have created a political vacuum. The fall of communism and the failures of third-world statist rule have taken down with them all the varieties of socialism that had as their common element the belief that the road to social justice goes through public ownership of the means of production. This left as political orphans all those who still believe in social justice but now can see no way to pursue it without sacrificing economic growth. You can make the pie bigger or you can slice it more fairly, we are told—but you can't do both. You *can* do both, according to Henry George. Second, because the environmental crisis forces us to rethink the terms on which we allocate natural resources. For both of these reasons, today's political environment offers a uniquely favorable opportunity to put into practice the new social contract preached by Henry George.



It's customary to begin a speech with a joke. Since our host today, the Lincoln Institute, is in the business of education, I'll start off by telling you an educational joke.

The setting is a public hanging. The condemned man is asked if he has any last words. "No," he says, "I have nothing to say." Then a member of the audience speaks up. "In that case," he says, "I'd like to say a few words about Henry George and the Single Tax." At that the condemned man shouts out: "Please! Hang me first!"

We can date this story quite precisely, and that is my point in telling it to you. Before 1880 and the publication of George's *Progress and Poverty*, the book that made him famous, the story would have had no meaning at all. After about 1920, the joke would again be meaningless, because its subject had been forgotten by all but a faithful few. Today that same condemned man would say: "Henry George—who's he? Single Tax—what's that?"

But, for a brief moment, for those few decades around the turn of the century, Henry George and his Single Tax were at the very center of the American political agenda. That of course is the meaning of the joke I told you. And the essence of what I want to say today is simply this: now is the moment for Henry George. There has never been a better time for the ideas George put forth. In fact, I believe, George's ideas are better suited to our day than they were to his own time. There are two reasons for this opportunity: one is the political vacuum created by the fall of communism. The second is the urgent need to define our relationship to the planet we are so rapidly consuming.

Before I discuss those two reasons for the special relevance to our times of George's message I want briefly to summarize that message. The subtitle of his book, *Progress and Poverty*, tells us the subject: "an inquiry into the cause of industrial depressions and of increase of want with increase of wealth . . . the remedy."

The rich get richer, the poor get poorer, and, according to George, the "cause" lies with the landowner. Here I have to specify that we're using "land" in the economist sense—that is, all of the gifts of nature. In this definition, land is not just real estate. Minerals are land. Even water is land. Everything not made by us is land. The owner of the land holds one of the two factors from which all the goods we use are made. The other is, of course, human effort—the work of our hands and minds.



Now, no one this side of the Emancipation Proclamation would deny us the right to the fruits of our labor. What I make with my own effort is uniquely mine, and if I sell my labor to another what I'm paid for it is equally mine. But in practice that right is meaningless without another right, and that is the right of access to those natural resources—land, minerals, fossil fuels that are needed to make our labor productive. It is over that right of access that we confront the land owner. He claims the right to deny us that access unless we pay his going rate, just as we claim the right to deny others our labor unless they meet our price. But the resource owner did not make his property. No landowner ever created an acre of real estate, and no Saudi monarch ever created a barrel of crude oil.

Nor does the resource owner give his property its value. The resources of nature in themselves have no economic value; what they will bring in the market is determined by human need. When land is abundant beyond our needs—the early days of European settlement in the New World, for example—it has no market value at all. The market value of natural resources, and therefore the owner's income, rises not through any effort or talent of theirs but only because a growing population requires more of those resources, while the supply is forever fixed in quantity. The Manhattan real estate that once went for \$24 is now worth billions to its owners—yet it's the same land. When OPEC corners the market in an oilhungry world, the price shoots skyward—yet it's the same oil. In the words of John Stuart Mill, the "landlords grow richer in their sleep without working, risking or economizing."

The value of natural resources, then, is created by the public, by us. And if we created that value, are we not as a community entitled to whatever return it brings, just as we are as individuals entitled to the return on our own labor? That sounds as if we're headed toward government ownership and the collective farm, but we're not. Henry George's remedy was quite different, and in that remedy lies his great original contribution. We, the public, need not hold title to the land—the resources of nature—in order to collect the value that is ours by right. If we simply view the resource owner as a tenant on a commons that belongs to all of us—that commons being not the land itself but the value we created—we can treat him as any landlord would: make him pay the rent, in the form of taxes. This is the "Single Tax" that became attached to Henry George's name, "single" because he thought it would be sufficient to pay all the expenses of government—which in his day might well have been true.

This tax—or ground rent—is the rare tax that improves our incentives instead of distorting them. Tax labor or capital and the supply diminishes. But tax land and the supply remains constant. Shift taxes off labor and onto land—in part or in whole—and you increase the incentive to use more labor, of which we have plenty, and to use less land and other natural resources, of which we are running out.

Single or not, this is the fairest of all taxes. Indeed, it's scarcely a tax at all, since we are just collecting the return on the value we ourselves created. In fact, it's the only tax that is fairer when it is imposed than when it's not. A tax on the earnings of labor is inherently unjust, for it deprives the individual of what is rightfully his or hers, the fruits of each person's own effort. Similarly, the failure to collect the resource tax is unfair, because it deprives us of the return on what is inherently ours. We're cheating ourselves when we don't collect the rent on our commons. That is what John C. Lincoln—the founder of the Lincoln Institute whom we honor today—had in mind when he wrote in his founder's statement: "When the landowner collects ground rent, instead of the community, the community is denied its natural

source of revenue and is compelled to levy taxes on the earned wealth of its citizens. This, I contend, is inequitable, and a violation of the moral law."

Let's take an example that will illustrate what Henry George and John C. Lincoln had in mind. Joe owns a piece of land way out in the sticks. It's of little use to Joe or anyone else, so it has little value on the real estate market. Now we, the community, decide through our government that we need access to a region out there, and so we build a highway that, as it happens, goes right past Joe's property. Suddenly, and through no effort on his part, Joe's land becomes valuable. He can sell it for many times what he paid for it, or he can simply sit on it, secure in the knowledge that its value will rise year by year by far more than the tax he pays to hold it. Joe gets rich in his sleep. That's how it happens today. But suppose instead that this happens in a Georgist world. Now, with the highway, the tax on Joe's land will increase in proportion to the rise in its rental value. He will be taxed, that is, an amount equal to what someone would pay to rent his land. Observe what happens. First, Joe doesn't get rich in his sleep. His land rises little if at all in value because of the steep rise in the tax on it. Joe has no reason to hold on to it for speculation. Let's suppose Joe decides to erect a hamburger stand on his property. If he's successful—let's say his name is McDonald—he'll make more than enough to pay the land value tax. He won't be taxed, as he would today, on the stand nor any other improvements he makes to the property, nor, in the Georgist ideal, will he be taxed on his earnings from the business. If he doesn't want to use his property, or if he tries and fails, Joe has every reason to dispose of it. Someone else will open a business there in his place, and perhaps succeed where he failed.

These are the consequences in our example of land value taxation:

1. Hoarding land for speculation no longer makes sense.
2. Because the price will drop, access to land will be easier. At the same time, however, the higher cost of holding land will require the landowner to use the property more efficiently than is necessary today.
3. Landowners are no longer taxed for improving their property, only for holding the value the community has created.
4. The community has gained a new source of income, one that does not fall on either labor or capital. If that highway was really needed, the added revenue from a land value tax could quickly repay the cost of its construction. The same would apply to mass transit. A land value tax could repay the cost of building a railroad or a subway. If we are serious about reducing auto traffic and air pollution, that same land value tax would help finance free or very low cost mass transit.

That example probably does not suggest the potential revenue of a value tax applied not just to real estate but to all forms of land in the economists' definition. Estimates vary, but everyone I've read agrees that such a tax would enable us dramatically to reduce the existing taxes on both labor and business. That is why Henry George thought it would provide the "remedy" to what he called the "increase of want with increase of wealth". George first observed that contrast of wealth and want in New York City. That's where I live, and I can certainly report that the contrast of wealth and want is still painfully evident today in that same city.

Henry George himself was at the center of the American stage from 1880 to his death in 1897. The single-tax movement survived him for about twenty years. Its last gasp could be dated to 1924. That's the year John C. Lincoln ran for vice president for the Commonwealth Land Party—and lost, as we know. Nowhere were the single-taxers able to translate the popularity of the idea into significant political success. Today the movement occupies a minor niche on the American scene. Committed Georgists number only in the hundreds. John C. Lincoln endowed a foundation which supports the Lincoln Institute, our host here today, and also helps to finance Henry George schools in several cities, including Boston and New York. Another foundation keeps George's books and other Georgist writings in print. There are, I believe, three very small communities that collect their local tax on Georgist principles. In Pennsylvania, a man named Steven Cord has had some success in persuading middle-sized cities to shift some of the property tax from buildings to land. And that is about it.

But, as I said earlier, two circumstances make today a better time for the central idea of Henry George than any time in the past.

One is the political vacuum left by the fall of communism. When communism fell, in the then Soviet Union and its satellites, it discredited the many varieties of socialism practiced or preached all around the world. For more than a century, it had been widely believed that the road to the good society lay through some form of public ownership of the means of production. That was the dominant belief of the rulers of the new nations of the Third World and it was the belief of large minorities in Western Europe. For millions of people around this globe, socialism in some form was the only alternative to a capitalism that seemed, in George's words, inevitably to produce an increase in want—more human misery, that is—along with with an undoubted increase in wealth.

That is the political vacuum of our day: socialism is dead, and nothing has replaced it as an ideal. All we are offered is a predatory form of capitalism under which, again, the rich get richer and the poor get poorer. This is how it must be, we are told. If we want a bigger pie, it has to be sliced more and more unequally. Note, for example, Bill Keller writing in the *New York Times*: "Graphs will appear demonstrating that social justice and economic growth are irreconcilable." Keller was writing about the new South Africa, but we've heard the same here at home, usually under the title of trickle down economics.

That is precisely where Georgists dissent from the prevailing definition of capitalism. We believe just the opposite. We believe that equity and economic growth can and must be reconciled in a capitalist society and in a free market. We believe that an economy run on Georgist principles—an economy that is both free and fair—will provide progress without poverty.

The Georgist idea could provide the former communist countries with an alternative to socialism and the kind of gangster capitalism some of them seem to be experiencing. In the specific case of agriculture, the Georgist method might prove especially welcome in Russia, where they are now groping for a way to replace the fiasco of collectivization. Certainly it would please the ghost of Leo Tolstoy. Tolstoy was an admirer of George, and he once wrote: "Solving the land question means the solving of all social questions."

Should this come to pass, should yesterday's socialists turn tomorrow to the ideas of Henry George, the wheel of history would have come full circle. In George's own day, those follow-

ers who deserted him usually did so for some kind of socialism, the most famous example being George Bernard Shaw. I like to think the next Shaw will travel that road in the other direction.

The second Georgist opportunity lies, as I mentioned earlier, in the crisis in our relations with the planet on which this growing number of us dwell. We all know about this crisis, and we know it will be with us for the foreseeable future, barring of course the extinction of our species. What we don't know is what to do about it, nor, I believe, do we really know how to think about it. Going as we are from a world of few people and abundant resources to the very opposite, we need a new social contract to define the terms on which many people will have access to few resources. I believe Henry George can provide us with the central idea, the governing principle, of that social contract.

Let's go back to *Progress and Poverty*, where George writes: "If we are all here by permission of the Creator, we are all here with an equal title to the enjoyment of his bounty—with an equal right to the use of all that nature so impartially offers. This is a right which is natural and inalienable; it is a right which vests in every human being as he enters the world, and which during his continuance in the world can be limited only by the equal rights of others. . . . There is on earth no power which can make a grant of exclusive ownership in land. . . . For what are we but tenants for a day?"

The ethical basis for a new social contract with nature lies in that last phrase—"tenants for a day." It provides us with a guiding principle when we seek a way to assure both freedom and fairness in access to the resources of nature. It doesn't provide all the answers, but it does give us a yardstick against which to measure the answers proposed to us. Any reader of *Progress and Poverty* can imagine how George would approach the resource issues of our day. Rather than trying to prevent pollution by regulation, he would tax polluters heavily enough to motivate them to clean up their messes. This is a case of the community, as landlord of the commons, charging tenants for damage to the premises—our premises. He would allow private enterprise to mine minerals and fossil fuels, and he would tax away that part of the profit due to exclusive access to the gifts of nature. Surely he would apply the same principle to mining the ocean floor—the last great commons of our earth—which he, and we, would tax for the benefit of all humanity.

Beyond these specifics, George's view of the world as a trust to be preserved rather than a conquest to be looted is in harmony with our new awareness of the limits of nature. In this sense—that we are all tenants on this earth, and owe rent for how we use or misuse it—Henry George speaks if anything more eloquently to today and tomorrow than he did to yesterday.